MORTGAGE BANKING MARKET SURVEY

for

SADDLEBROOK CORPORATION

PRESENTATION

January 23, 1989

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NOTES:

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1989

NORMAN LITELL

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PRESENTATION OBJECTIVES

- **SUMMARIZE REPORT**
  - Methodology
  - Economic Analysis
  - Interview Results
  - Recommendations
- **DISCUSS RECOMMENDATIONS**

NOTES:

STUDY OBJECTIVES

- **IDENTIFY SIGNIFICANT MARKET TRENDS**
  - Mortgages and Mortgage Lending Institutions
  - Mortgage System Vendors
- **EVALUATE COMPETITIVE POSITION OF SYSTEM M**
- **RECOMMEND CHANGES IN SYSTEM M MARKETING APPROACH**

NOTES:

STUDY APPROACH

- **ATTEND MBA CONVENTION** (San Francisco)
  - Evaluate competitors' offerings
  - Compare SYSTEM M with other vendor packages
- **INTERVIEW COMPETITIVE VENDORS**
- **INTERVIEW CURRENT/POTENTIAL CLIENTS**
- **RESEARCH ECONOMIC ISSUES**
- **DEVELOP ANALYSIS AND RECOMMENDATIONS**

NOTES:

ZERO-BASED ANALYSIS

- **MINIMAL BACKGROUND ON SADDLEBROOK/SYSTEM M**
  - System documentation
  - Demo at MBA convention
- **OBJECTIVES**
  - Assess the marketplace
  - Recommend best way to compete
  - Assume *de novo* system and marketing approach

NOTES:

VENDORS INTERVIEWED

- Data Link
- Eastern Software
- FICS
- FIserv
- IRMS
- Lomas
- SLIMS
- Software Devel Corp
- SSI

VENDORS DECLINING INTERVIEWS

- Fannie Mae
- Interlinq
- Mortgage Flex
- Prof Info Mgmt

NOTES:

SUMMARY OF FINDINGS - 1 (Mortgage Market)

- **SIGNIFICANT OVERCAPACITY IN INDUSTRY**

- **FINANCIAL SITUATION CANNOT IMPROVE**
  - Loan/value ratios at historic high
  - Interest rates at/near historic lows

- **DEMOGRAPHICS ARE UNFAVORABLE**
  - End of baby boom generation
  - Family formation decreasing/delayed

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NOTES:

80s GROWTH CAME FROM
- EQUITY TAKEOUTS (NEW PRODUCT)
- REFINANCING (LOWER INTEREST RATES)
- NET NEW HOUSEHOLD FORMATIONS

SUMMARY OF FINDINGS - 2 (Financial Institutions)

- **SIGNIFICANT CONSOLIDATION OCCURRING**
  - Deregulation spurring acquisitions across state borders
  - Deregulation allowing combination of coml banks and S&Ls
  - Ailing thrifts being merged

- **MORTGAGE INDUSTRY BECOMING POLARIZED**
  - Many small/medium sized originators
  - Few large servicers

NOTES:

SUMMARY OF FINDINGS - 3 (System Vendor Implications)

- **FEWER TARGETS AVAILABLE --> INCREASED COMPETITION**

- **MID-SIZED TARGETS UNDER INCREASING COST PRESSURES**
  - Competition due to overcapacity
  - Efficiencies of scale of large servicing organizations
  - Low overhead of small origination organizations

- **LOW BARRIERS TO ENTRY/EXIT FOR SMALL "BOUTIQUE" FIRMS**

NOTES:

LOW ENTRY/EXIT BARRIERS PROVIDE OPPORTUNITY FOR LOW COST SYSTEM SALES TO NEW/REENTRANTS.

SUMMARY OF FINDINGS - 4A (User Survey)

- **PRIMARY BENEFITS SOUGHT**
  - Operational cost reduction
  - Improved control of operations and portfolio
- **MOST IMPORTANT FEATURE IS SYSTEM FLEXIBILITY**
  - Adding new products/modifying existing products
  - Adding/modifying operational structure (# of branches, etc)
  - MIS reporting

NOTES:

SUMMARY OF FINDINGS - 4B (User Survey)

- **USERS GENERALLY UNHAPPY WITH VENDOR PRESALE SUPPORT**
  - "Superficial, if not incompetent"
  - Vendors have conflict of interest in supporting planning/analysis
- **USERS VERY UNHAPPY WITH VENDOR OPERATIONAL SUPPORT**
  - *Availability* - lack of 24 hour/7 day coverage
  - *Response time* - problems not resolved in reasonable time frame
  - *Quality* - support staff lack knowledge of both application and system

NOTES:

SUMMARY OF FINDINGS - 4C (User Survey)

- **SPECIFIC VENDOR CHARACTERISTICS EXTREMELY IMPORTANT**
  - Knowledge of industry and application
  - Stability/commitment to industry
  - Large customer base (users do not want to be guinea pigs)

- **KEY DECISION-MAKING CRITERIA**
  - *Functionality* - does the system meet current and future needs
  - *Cost* - is it cost-justified

NOTES:

SUMMARY OF FINDINGS - 4D (User Survey)

- **SPECIFIC APPROACH TO PRICING DESIRED BY USERS**
  - *Unbundled* - price support/services separately from system license
  - *Modular* - price system based on installed capabilities
  - *Fixed* - no change in price with change in amount of work processed
- **USERS ALSO WANT COPY OF SOURCE CODE**
  - Protection against vendor abandoning system
  - Modify system/solve system problems if vendor is unresponsive

NOTES:

SUMMARY OF FINDINGS - 4E (Saddlebrook Evaluation)

- **SAMPLE MAY BE BIASED** (Interview targets selected by Saddlebrook)

- **STRONG POINTS**
  - Stability/length of time in business
  - Knowledge of industry
  - Capabilities/flexibility of system
  - Dedication to user support

NOTES:

SUMMARY OF FINDINGS - 4F (Saddlebrook Evaluation)

- **SAMPLE MAY BE BIASED** (Interview targets selected by Saddlebrook)

- **WEAK POINTS**
  - Cost
  - Look/feel is "old"
  - Poor throughput/performance of PDP-based systems
  - Lack of IBM-compatibility
  - Difficulties of operating in a distributed (multi-branch) environment

NOTES:

SUMMARY OF FINDINGS - 5A (Vendor Survey)

- **SYSTEM FLEXIBILITY IS IMPORTANT, BUT CONFUSED ISSUED**
  - Everyone considers it to be the most important aspect of a system
  - Everyone touts their own
  - Many knock the competition
  - There is no agreement or standard of what flexibility means

NOTES:

SUMMARY OF FINDINGS - 5B (Vendor Survey)

- **TWO DIFFERENT KINDS OF FLEXIBILITY IMPORTANT TO USERS**
  - *Operational*
    - ability to change screen layouts, data entry prompts, etc
    - ability to add/change products/branches/staff assignments, etc
  - *MIS*
    - ability to add/change queries, reports, etc
    - ability to add/change sorts/classifications of database

NOTES:

SUMMARY OF FINDINGS - 5C (Vendor Survey)

- **MOST IMPRESSIVE SYSTEMS AT MBA HAD COMMON FEATURES**
  - Convenient-looking laptop origination systems
  - Full-screen tabular data entry
  - Laser printing of forms
- **SUCH FEATURES HAVE STRONG IMPACT AT DEMOS**
  - "Grabber" interface generates positive impression
  - "Old-looking" system inconsistent with claims of modernity/flexibility

NOTES:

SUMMARY OF FINDINGS - 5D (Vendor Survey)

- **POSITIONING DEMONSTRATES MARKET COMPETITIVENESS**
  - *High-end/Premium* position adopted by half the vendors
  - *Moderate/low cost solution* pitched by 2/3
  - Half of Premium vendors also pitch low cost

- **STRONG PRICE COMPETITION**
  - Several firms admit "buying into the market"
  - Others attempting to maintain market share by cutting price

NOTES:

SUMMARY OF FINDINGS - 5E (Vendor Survey)

- **MOST VENDORS' PRICING MATCHES USER PREFERENCES**
  - *Unbundled*
  - *Modular*
  - *Fixed*

- **TWO BASIC AREAS WHERE USAGE-BASED PRICING PREVAILS**
  - Service bureaus price on a per transaction basis
  - Some vendors charge on a per terminal or per processor basis

NOTES:

SUMMARY OF FINDINGS - 5F (Vendor Survey)

- **MOST VENDORS GROWING INSTALLED BASE AT 10-15% PER YEAR**
  - New vendors growing more rapidly
  - Vendors focussing on very large users growing more slowly
- **TOO MANY VENDORS CHASING TOP END OF MARKET**
  - 7 out of 9 vendors included top tier in their target market
  - Only 50% indicated any interest in small/medium sized firms

NOTES:

GENERAL OBSERVATIONS and CONCLUSIONS - 1

- **MORTGAGE INDUSTRY OUTLOOK GENERALLY WEAK**
- **INCREASING COMPETITION AMONG SYSTEM/SERVICE VENDORS**
- **INCREASING VARIETY/COMPLEXITY OF MORTGAGE PRODUCTS**
- **INTELLIGENT WORKSTATIONS EMERGING AS A STANDARD**
- **USERS' CONCERNS GROWING**
  - Increasing dependence on systems to process workload
  - Cost pressures/industry overcapacity

NOTES:

GENERAL OBSERVATIONS and CONCLUSIONS - 2

- **DISAPPOINTING SALES OF SYSTEM M DUE TO 3 FACTORS**
  - Decline in underlying mortgage market
  - Increased competition in market for systems/services
  - Specific characteristics of System M product offering
- **MARKET AND COMPETITION BEYOND SADDLEBROOK CONTROL**
- **RECOMMENDATIONS FOCUS ON CHANGES TO SYSTEM M**

NOTES:

RECOMMENDATIONS - 1

- **6 AREAS ADDRESSED**
  - *Product*
  - *Service/support*
  - *Positioning*
  - *Pricing*
  - *Promotion*
  - *Target Markets*

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RECOMMENDATIONS - 2

- **PRODUCT RECOMMENDATIONS FOCUS ON LONG-TERM**

- **OTHER RECOMMENDATIONS CAN BE IMPLEMENTED AT ONCE**

- **TWO DISTINCT REASONS FOR RECOMMENDATIONS**
  - Match competition (generates no competitive advantage)
  - Differentiate Saddlebrook (build competitive advantage)

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NOTES:

RECOMMENDATIONS - 3A (PRODUCT)

- Consider rewriting in IBM-compatible mode
- Base upgrades/rewrites on 4GL/database system
- Minimize custom system code
- Consider Pick- or Unix-based approach
- Rewrite data entry using full-screen, table-oriented approach
- Provide laser forms generation capability

NOTES:

RECOMMENDATIONS - 3B (SERVICE/SUPPORT)

- Establish 24 hour hotline coverage
- Commit maximum response times to specific problem categories
- Assign specific Customer Account Reps to each client
- Ensure quality and knowledge of support staff
- Develop structured, modular package of pre-sale/implementation support services
- Develop comprehensive, modular "do-it-yourself" installation/ training manuals as low cost user option

NOTES:

RECOMMENDATIONS - 3B (cont) (SERVICE/SUPPORT)

- Provide system tuning tools/procedures and periodic system performance review as part of basic maintenance service
- Develop low cost hardware upgrade program
- Consider developing cadre of freelance associates to support users on custom work

NOTES:

RECOMMENDATIONS - 3C (POSITIONING EMPHASIS)

- Current position satisfactory/appropriate
- Emphasize industry experience and track record of firm
- Define characteristics of Premium product
  - Full/comprehensive functionality (supports all types of products/computations/reports, etc)
  - Flexibility
  - Ease of use
  - Quality (technical features, error-free, etc)

NOTES:

RECOMMENDATIONS - 3D (PRICING)

- Establish at Mid + level
- Unbundle services
- Modularize by installed functional capability
- Freeze license fees at time of sale
- Base initial license fees partially on business profile
- Emphasize "good value for your money"

NOTES:

RECOMMENDATIONS - 3E (PROMOTION)

- Continue current advertisements in trade press
- Continue and upgrade trade show demos
- Encourage and aggressively pursue customer referrals
- Consider building a promotional package around MBA manual *"Chosing a Loan Production System"*

NOTES:

RECOMMENDATIONS - 3F (TARGET MARKETS)

- Reduce focus on top tier
- Increase focus on middle and lower tier
- Emphasize S&L/thrift, mortgage bank and credit union markets
- Reduce emphasis on commercial banks

NOTES:

EXPECTED SALES RATES

- **INDUSTRY AVERAGE IS 10-15% PER YEAR NEW INSTALLATIONS**

- **SADDLEBROOK SHOULD ACHIEVE AT LEAST THIS RATE**
  - System M has good reputation
  - Saddlebrook has good reputation
  - Changes in marketing profile can provide competitive advantage

- **BIGGEST QUESTION MARK IS IMPACT OF SYSTEM REWRITE**

NOTES: